

**South Carolina
Department of Insurance
Columbia, South Carolina**

State Auditor's Report

June 30, 2020



Independent Accountant's Report on Applying Agreed Upon Procedures

August 30, 2021

Mr. Raymond G. Farmer, Director
South Carolina Department of Insurance
Columbia, South Carolina

We have performed the procedures described in Attachment 1 on the systems, processes and behaviors related to financial activity of the South Carolina Department of Insurance (the Department) for the fiscal year ended June 30, 2020. The Department's management is responsible for the systems, processes and behaviors related to financial activity.

The Department's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of understanding the systems, processes and behaviors related to financial activity. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We were engaged by the Department to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department for the year ended June 30, 2020. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the Department's management. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

We are required to be independent of the Department and to meet other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the management of the South Carolina Department of Insurance, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed-Upon Procedures Related to the South Carolina Department of Insurance (R20)**

Cash Receipts/Revenues

1. Haphazardly select ten cash receipts transactions and inspect supporting documentation to determine:
 - Transaction agrees with the general ledger as to amount, date, payor, and account classification.
 - Revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2020 Appropriation Act.
 - Both revenue collections and amounts charged are properly authorized by law.
 - Receipts are recorded in the proper fiscal year.

We found no exceptions as a result of this procedure.

Cash Disbursements/Non-Payroll Expenditures

2. Haphazardly select five non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures and invoice(s) agree(s) with general ledger as to vendor, amount, and date.
 - All supporting documents and approvals are present and agree with the invoice.
 - The transaction is an actual expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement is recorded in the proper fiscal year.
 - Clerical accuracy.
3. Haphazardly select five purchasing card transactions from the Comptroller General's (CG) listing of purchasing card transactions for fiscal year 2020 and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Finding

Purchasing Cards – For all five purchasing card transactions inspected, the monthly purchasing statement was not signed by the cardholder and supervisor.

Management Response

We concur with the finding. We will strengthen our policies to include documenting approval by both the cardholder and supervisor on the monthly purchasing card statements. This will begin with the July 28, 2021 billing period.

Payroll

4. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, and that their last paycheck, including any leave payout, was properly calculated in accordance with applicable State law.
5. Haphazardly select three bonus payments to determine:
 - The employee does not make more than \$100,000 annually.
 - The bonuses received during the year did not exceed \$3,000.
 - The payment amount agreed to supporting documentation and the bonus was given in accordance with Department policy.
 - The bonus pay was approved by the appropriate supervisor.

Finding

Bonus Pay – One employee received bonuses in excess of the \$3,000 limit set forth in Section 117.54 of the fiscal year 2020 Appropriation Act.

Management Response

We concur with the finding. The Director of Administration will approve all bonuses and also review the spreadsheet the Payroll department maintains to ensure bonuses do not exceed \$3,000 for any employee for the fiscal year. The Payroll department will also ensure it performs a thorough review of the spreadsheet.

Journal Entries and Transfers

6. Haphazardly select five journal entries and transfers and inspect supporting documentation to determine:
 - Postings in the general ledger agree to supporting documentation.
 - Transaction is properly approved.
 - The purpose of the transaction.

We found no exceptions as a result of this procedure.

Reporting Packages

7. Inspect fiscal year end reporting packages submitted to the CG. Compare responses in the Master Reporting Package Checklist and any required supplemental information to year end reporting packages, the South Carolina Enterprise Information System (SCEIS) and Department prepared records. Additionally, compare the dates submitted to the due dates established by the CG's Reporting Policies and Procedures Manual.
8. In addition to the procedure above, perform the following:
 - Tax Revenue Reporting Package

Determine if amounts agree to Department prepared reports/spreadsheets.

Reporting Packages (Continued)

- Operating Leases Reporting Package

Agree amounts to the SCEIS general ledger and Department prepared records. In addition, based on inspection of invoices and lease agreements, determine that rental payments were properly classified, coded, and calculated by inspecting and recalculating the following reported amounts: (1) Five haphazardly selected payments from the remaining categories (PO Box Rentals, Month to Month Rentals, Payments for Supplies, and Other Rental Charges); and (2) The periodic minimum payment, current expense, and future minimum lease payments for five haphazardly selected leases.

- Subsequent Events Questionnaire

Inspected that the Questionnaire was completed in accordance with the CG's Reporting Policies and Procedures Manual.

Finding

Operating Leases Reporting Package – The Department overstated future minimum lease payments by \$1,213 on the Future Minimum Payment Schedule due to the inclusion of property tax. A similar finding was reported in the 2019 State Auditor's Report.

Management Response

We concur with the finding. We will strengthen our procedures to ensure property tax is not included on the Future Minimum Payment Schedule unless specifically listed in the lease agreement, in accordance with the CG's guidance.

Assets and Personal Property

9. Haphazardly select five asset acquisitions and inspect supporting documentation to determine that each asset was properly capitalized and posted to the general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
10. Through inquiry of management and inspection of supporting documentation, determine that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Finding

Asset Acquisitions - The Department improperly capitalized four individual assets that did not meet the State's capitalization threshold. The assets were components of a larger system and should have been added to the general ledger as sub assets of that system.

Management Response

We concur with the finding. The Director of Administration will implement a formal review process with the Finance and Procurement Departments and other applicable personnel to ensure assets are capitalized and recorded properly in accordance with the CG's Reporting Policies and Procedures Manual.

Credit Card System

11. Obtain the Department's year-end reconciliation of the credit card system to SCEIS and determine if it was performed timely and documented and if reconciling differences were explained and resolved.

We found no exceptions as a result of the procedure.

Status of Prior Findings

12. Through inquiry of management and inspection of supporting documentation, determine the Department has taken corrective action on the findings reported during the engagement for the prior fiscal year.

We determined the Department has taken corrective action on the findings except where noted in the **Operating Leases Reporting Package** finding above.